

Message Text

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ORIGIN ARA-20

INFO OCT-01 ISO-00 DODE-00 AID-20 PM-07 IGA-02 CIAE-00

INR-10 NSAE-00 RSC-01 L-03 COME-00 EB-11 FRB-02

TRSE-00 XMB-07 OPIC-12 SP-03 CIEP-02 OMB-01 NSC-07

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FM SECSTATE WASHDC

TO AMEMBASSY MONTEVIDEO

C O N F I D E N T I A L STATE 094333

E.O. 11652: GDS

TAGS:PFOR US, US

SUBJECT: CASP PRE IG - URUGUAY

1. SUMMARY

PRE IG MET TO REVIEW URUGUAY CASP ON APRIL 25 AND ON MAY 6. FOCUS OF DISCUSSION AT INITIAL MEETING WAS EXTENT TO WHICH SITUATION HAS IMPROVED IN URUGUAY WHICH WOULD JUSTIFY A MORE ACTIVE U.S. ROLE THERE. SECOND MEETING WAS HELD TO ATTEMPT TO RECONCILE DIFFERING PERCEPTIONS OF URUGUAYAN SITUATION WHICH EMERGED DURING APRIL 25 MEETING.

2. THE CENTRAL POINT OF DISCUSSION AT PRE IG MEETINGS WAS DISPARITY IN PERCEPTIONS AS TO EXTENT TO WHICH GOU HAS TAKEN EFFECTIVE MEASURES REQUIRED TO BRING ABOUT ECONOMIC TURNAROUND IN URUGUAY. STEPS WHICH CASP DESCRIBED AS NEW ECONOMIC BEGINNING WERE CITED SEVERAL TIMES IN VARIETY OF CONTEXTS BUT NO CONSENSUS AS TO THEIR EFFECTIVENESS WAS REACHED. REPRESENTATIVES OF TREASURY, AID, CIA, OMB AND CONFIDENTIAL

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SOME OFFICES IN STATE EXPRESSED VIEW THAT THERE IS LITTLE JUSTIFICATION FOR OPTIMISTIC VIEW OF CURRENT SITUATION IN URUGUAY. THE EMBASSY IS REQUESTED TO SUBMIT UPDATED COMMENTS ON THIS FUNDAMENTAL POINT BY PROVIDING ANALYSIS

OF RELEVANT RECENT ECONOMIC DEVELOPMENTS IN URUGUAY FOR
INSERTION IN CASP AT APPROPRIATE POINTS. SPECIFICALLY,
EMBASSY MIGHT WISH TO AMPLIFY AND QUANTIFY POLICY AND
REFORM DECISIONS AND ACTIONS AFFECTING INSTITUTIONS AS WELL

AS ECONOMIC POLICIES WHICH WOULD INDICATE FORWARD MOVEMENT
IN SOLVING URUGUAY'S LONG STANDING PROBLEMS.

3. ITEMS WHICH EMERGED FROM ABOVE DISCUSSION WERE AS
FOLLOWS:

A. AID LENDING

1. THE PRE IG CONSENSUS WAS THAT WE SHOULD VIEW PERFOR-
MANCE RATHER THAN ANNOUNCED POLICY CHANGES AS THE
PRINCIPAL DETERMINANT OR YARDSTICK IN CONSIDERING
QUESTION OF RENEWED AID LENDING. IN THIS CONTEXT THE PRE
IG AGREED UPON FOLLOWING LANGUAGE TO BE INSERTED IN PAGE
11, PARAGRAPH 2, AFTER WORDS "MACRO-ECONOMIC PROGRA":
AUTHORIZATION OF THIS LOAN SHOULD BE CONSIDERED ONLY IF
THERE IS CONCRETE EVIDENCE THAT THE GOU IS MAKING THE
NECESSARY POLICY AND ADMINISTRATIVE CHANGES TO ENABLE
URUGUAY TO MAKE THE LONG-AWAITED ECONOMIC TURNAROUND OUT
OF STAGNATION. SIGNING OF AN IMF STAND-B AGREEMENT,
OR SATISFACTORY ASSURANCE THAT SUCH SIGNING IS IMMINENT,
WILL BE A NECESSARY PRECONDITION TO AUTHORIZATION OF THE

LOAN. IT IS ENCOURAGING THAT MANY OF THE MOST IMPORTANT
REFORMS HAVE BEEN ANNOUNCED BUT IT IS IMPORTANT THERE
BE MINIMAL DOUBTS THAT IMPLEMENTATION IS WELL ON ITS WAY.
OUR PURPOSE IN ANY LENDING SHOULD BE TO BE SUPPORTIVE
OF GOU EFFORTS TO MAKE DIFFICULT BUT CRITICALLY-IMPORTANT
POLICY CHANGES. WE SHOULD AVOID ANY ACTION WHICH WOULD
LESSEN THE INCENTIVE OR WILL OF THE GOVERNMENT TO MAKE
THESE CHANGES."

2. THE PRE IG REQUESTED THAT CT CLARIFY DISCUSSION OF
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REJECTED ALTERNATIVES CONSIDERED UNDER ISSUE ANALYSIS
ON PAG 12 BY SEPARATELY REATING FOLLOWING THREE
ALTERNATIVES 1) CONTINUATION OF ASSISTANCE AT CURRENT
LEVELS, 2) PHASE OUT OF ASSISTANCE; 3) SIGNIFICANTLY

EXPANDED ASSISTANCE.

B. SECURITY ASSISTANCE RELATIONSHIP

PRE IG CONSENSUS WAS THAT ADDITIONAL CLARIFICATION WAS
NEEDED TO SUPPORT THE MILITARY ASSISTANCE LEVELS
RECOMMENDED IN CASP SUBMISSION AND IN MONTEVIDEO 935
(WHICH POSTDATES CASP).

1. FMS CREDIT

RECALLING THE RECENT RESCHEDULING OF URUGUAY'S FMS DEBT PAYMENTS TREASURY AND OMB QUESTIONED PROPRIETY OF EXTENDING FMS CREDIT TO FINANCE PROPOSED PURCHASE OF A-37 B AIRCRAFT. HOWEVER, AS UAF MODERNIZATION EFFORT HAS BEEN RECOGNIZED IN EMBASSY SUBMISSIONS SINCE FY 72 AND AS USG COOPERATED IN GOU PLANNING EFFORTS IN TIS REGARD, PRE IG CONSENSUS WAS THAT PROPOSED AIRCRAFT PURCHASE ISSUE SHOULD BE DEVELOPED IN CASP CONTEXT AND REFERRED TO THE IG FOR CONSIDERATION. YOU MAY WISH TO ADDRESS THIS ISSUE IN THE CONTEXT OF AN EXPANDED MILITARY ASSISTANCE PROGRAM SECTION ON PAGE 8. IN ITS RESPONSE CT SHOULD ADDRESS INTER ALIA FOLLOWING QUESTIONS WHICH EMERGED AT PRE IG MEETING:

A. IN LIGHT OF PRESENT ECONOMIC CONDITIONS IN URUGUAY, HOW DOES EMBASSY JUSTIFY THIS MAJOR COMMITMENT OF RESOURCES FOR PROCUREMENT OF A WEAPONS SYSTEM. ANSWER SHOULD SPECIFICALLY TAKEN INTO ACCOUNT NOV. 1973 STRETCH-OUT OF EXISTING FMS DEBTS. RESPONSE SHOULD ALSO ADDRESS SECTION 4 OF FMS ACT WHICH STATES: QUOTE.....NONE OF THE FUNDS CONTAINED IN THIS AUTHORIZATION SHALL BE USED TO GUARANTEE, OR EXTEND CREDIT, OR PARTICIPATE IN AN EXTENSION OF CREDIT IN CONNECTION WITH ANY SALE OF SOPHISTICATED WEAPONS SYSTEMS, SUCH AS MISSILE SYSTEMS AND JET AIRCRAFT FOR MILITARY PURPOSES, TO ANY UNDERDEVELOPED COUNTRY.....UNLESS THE PRESIDENT DETERMINES THAT SUCH CONFIDENTIAL

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FINANCING IS IMPORTANT TO THE NATIONAL SECURITY OF THE UNITED STATES AND REPORTS WITHIN THIRTY DAYS EACH SUCH DETERMINATION TO THE CONGRESS. END QUOTE.

ALTHOUGH THE A-37 B IS NOT LIKELY TO BE CONSIDERED A SOPHISTICATED WEAPONS SYSTEM FOR URUGUAY, IN ORDER TO JUSTIFY SUCH A FINDING THE SALE OF THIS TYPE AIRCRAFT TO URUGUAY MUST BE CONSIDERED IN THE CONTEXT OF CONGRESSIONAL INTENT IN ENACTING SECTION 4, THAT IS, NOT TO OVERBURDEN UNDERDEVELOPED COUNTRIES WITH MILITARY EXPENDITURES TO THE DETRIMENT OF THE ECONOMIC AND SOCIAL DEVELOPMENT OF THOSE COUNTRIES.

B. DOES DECISION TO BUY A-37 B AIRCRAFT CONSTITUTE A COMMITMENT BY BORDABERRY GOVERNMENT TO CONCENTRATE FMSCREDIT RESOURCES SOLELY ON THIS PURCHASE FOR THE CASP TIME FRAME, OR SHOULD WE EXPECT COMPARABLE MAJOR EQUIPMENT REQUESTS FROM THE OTHER SERVICES DURING THIS PERIOD? HAS THE GOU AS OPPOSED TO UAF DECIDED TO PLACE ALL FMS CREDIT EGGS IN ONE BASKET?

C. HOW DOES EMBASSY EVALUATE GOU FINANCIAL CAPACITY TO

MEET REPAYMENT REQUIREMENTS WHICH THIS SALE WOULD ENTAIL?

D. TO WHAT EXTENT MIGHT GOU BE ABLE TO RAISE PRIVATE CREDIT FOR A-37 FINANCING IF USG WERE WILLING TO PROVIDE FUNDS TO GUARANTEE SUCH PRIVATE FINANCING?

E. IF USG IS UNABLE TO PROVIDE FMS CREDIT FOR THE PURCHASE OF THESE AIRCRAFT IS GOU LIKELY TO PROCURE COMPARABLE SYSTEM FROM THIRD COUNTRY SOURCE?

2. MAP

WHILE IT IS AS YET UNRESOLVED A POSSIBILITY EXISTS THAT ALL MAP MATERIEL PROGRAMS FOR LATIN AMERICA WILL BE TERMINATED DURING CASP PLANNING PERIOD. FURTHERMORE, THE ENTIRE PROGRAM HAS RECENTLY BEEN SUBJECTED TO INTENSE CONGRESSIONAL PRESSURES WORLD WIDE WHICH HAVE PRECLUDED ATTAINMENT OF REQUESTED PROGRAM LEVELS. IN LIGHT OF THIS, CONFIDENTIAL

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PRE IG REQUESTS EMBASSY PROPOSE ALTERNATE LEVELS FOR MAP-M INCLUSIVE OF EDA FOR FY 75 AND FY 76 WHICH WOULD BE WARRANTED IN EVENT DECISION IS MADE TO PHASE-OUT THE PROGRAM.

4. OTHER CONCLUSIONS, RECOMMENDATIONS, AND QUESTIONS RAISED BY PRE IG WERE AS FOLLOWS:

A. WHILE CASP ASSESSES IMPACT OF POSSIBLE MOVE TOWARD MORE AUTHORITARIAN GOVERNMENT IN URUGUAY UNDER U.S. NATIONAL DEFENSE INTEREST (P.28), NO SIMILAR ASSESSMENT IS MADE WITH REGARD TO OTHER U.S. INTERESTS AND RELATED PROGRAMS. PRE IG CONSENSUS WAS THAT POSSIBILITY OF BORDABERRY'S OUSTER IN TIME FRAME IS SUFFICIENTLY GREAT AS TO WARRANT ADDITIONAL COMMENT BY THE EMBASSY IN THE CASP. THIS MIHT WELL BE DONE BY ADDITION TO AMBASSADOR'S OVERVIEW STATEMENT.

B. THE PRE IG NOTED THE ARGENTINE-BRAZILIAN RIVALRY IN THE URUGUAYAN "BUFFER" STATE CONTEXT AND REQUESTED CT COMMENT AS TO POSSIBLE POLICY IMPLICATIONS FOR THE U.S.

C. AT RECOMMENDATION OF COMMERCE, MAJORITY OF PRE IG AGREED TO RECOMMEND RECLASSIFIED LEVEL OF CONCERN (LOC) FOR U.S. ECONOMIC PROSPEITY INTEREST FOR FY 75 FROM L TO M. UNLESS CT OBJECTS TEXT OF EXPLANATION OF ASSIGNED LOC FOR FY 75 (P.24) WILL BE DELETED AND FOLLOWING LANGUAGE INSERTED: QUOTE...ALTHOUGH TRADE

WITHAND INVESTMENT IN URUGUAY ARE NOT LARGE IN THE TOTAL U.S. ECONOMIC PICTURE, AN INTER-AGENCY COMMERCIAL ACTION PROGRAM (CAP), DESIGNED TO EXPLOIT MORE FULLY THE OPPOR-

TUNITIES THAT DO EXIST, WAS INITIATED AS A PILOT PROGRAM IN FY-74 AND WILL BE 'REGULARIZED' IN FY 75. THIS INTENSIFIED EFFORT REQUIRES PRIORITY IN RESOURCE ALLOCATION, ESPECIALLY THROUGH REPROGRAMMING AVAILABLE RESOURCES TOWARD MORE PRODUCTIVE UTILIZATION. A MEDIUM LEVEL OF CONCERN IS MERITED FOR OUR COMMERCIAL EFFORTS IN ORDER TO MAINTAIN THE PRESENT LEVEL OF U.S. EXPORTS TO URUGUAY IN FY-75, WHEN NON-PETROLEUM IMPORTS MAY BE RESTRICTED IN THE FACE OF BALANCE OF PAYMENTS CONSTRAINTS, AND TO TAKE
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ADVANTAGE GREATER TRADE AND INVESTMENT OPPORTUNITIES IN FY -76 WHICH MAY RESULT FROM RISING IMPORTS AND AN IMPROVED FOREIGN INVESTMENT CLIMATE. END QUOTE.

D. THE RESOURCE LEVELS PROPOSED FOR FYS 75 AND 76 FOR STATE AND USIS ARE MARKEDLY ABOVE THOSE OF RECENT YEARS. A RATIONALE SPECIFIC TO EACH OF THE NOTED ACTIVITIES DOES NOT APPEAR IN THE CASP. A PARTIAL EXPLANATION IS SUGGESTED BY THE OVERVIEW AND IN THE FOOTNOTE TO TABLE 1. HOWEVER, PRE IG REQUESTED THAT EMBASSY EXPLAIN PROJECTED INCREASE, PARTICULARLY IN VIEW OF CONCURRENT DECREASE IN PERSONNEL AND FACT THAT, AFTER PROLONGED STATIC PERIOD, URUGUAYAN PESO IS AGAIN MOVING DOWNWARD WITH SOME FOREIGN EXCHANGE SAVINGS (SEE MONTEVIDEO A-63, APRIL 26, 1974).

E. PRE IG DID NOT ENDORSE SEPARATE LINE ITEM FOR NARCOTICS, TRAVEL AND REPRESENTATION ON TABLE 1 TO ANNEX A. FOR CASP PRESENTATION PURPOSES THIS ACTIVITY SHOULD BE SUBSUMED UNDER OVERALL REPRESENTATION BUDGET LINE ITEM.

F. PRE IG NOTED CASP RECOMMENDATION THAT LONG-VACANT OFFICER POSITION IN ECOM SECTION BE FILLED, BUT DETERMINED NOT TO PURSUE MATTER FURTHER IN IG CONTEXT. ARA/MGT INFORMED PRE IG THAT FILLING OF THIS POSITION IS SUBJECT OF CORRESPONDENCE WITH THE AMBASSADOR.

5. PRE IG FOUND CASP SUBMISSION TO BE HELPFUL IN CONSIDERING NUMEROUS SUBSTANTIVE QUESTIONS RAISED AT PRE IG MEETING. PRIMARY PROBLEM WAS NOT SO MUCH WITH CASP AS WITH DEFINING SITUATION IN URUGUAY COMPLICATED BY EVENTS SUCH AS REQUEST FOR FMS CREDIT FOR A-37S WHICH TOOK PLACE AFTER CASP PREPARED. RUSH

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